# Chinese Factory Activity Declines, Adding Pressure on Economic Growth



**Chinese Factory Activity Declines, Affecting Economic Momentum**

In May, China's manufacturing activity experienced an unexpected decline, as indicated by the nation's official manufacturing purchasing managers' index (PMI), which registered at 49.5, down from April's 50.4. A PMI below 50 suggests contraction. This downturn adds pressure on policymakers aiming to sustain economic growth in the world's second-largest economy.

This shift reverses the gains observed in March and April. The non-manufacturing PMI remained slightly positive at 51.1 in May, marginally down from April's 51.2. Analysts had anticipated the manufacturing PMI to remain above 50, signaling expansion.

President Xi Jinping's administration has prioritized high-end manufacturing and upgrading the industrial sector. Recent data showed a 6.7% rise in industrial production for April, counterbalancing other weak economic indicators such as a prolonged property market slump and reduced consumer demand.

Economists like Dan Wang from Hang Seng Bank China emphasize weak domestic demand in the industry. Zhiwei Zhang from Pinpoint Asset Management underlined the need for more proactive fiscal policies to stimulate internal demand, given the current reliance on exports.

In response, the Chinese government has adopted cautious stimulus measures, gradually reducing benchmark lending rates and instituting policies aimed at completing unfinished construction projects. Recently, state-owned enterprises have been permitted to purchase unsold housing, signaling a significant policy shift.

New home sales, according to official data, decreased by 23.4% year-on-year in the first quarter. China has set a 5% economic growth target for 2024, with GDP rising by 5.3% in Q1 compared to early 2023. Retail sales in April grew by only 2.3% year-on-year, indicating weak consumer spending.

The International Monetary Fund recently adjusted China's growth forecast upward but stressed the necessity for stronger domestic demand and reassessment of industrial policies. As the Chinese economy contends with property market issues, job losses, and demographic shifts, sustained growth will require additional long-term reforms.